

Message Text

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P 160930Z JUN 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 4483

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS, 12/16/75

TAGS: EAID, EFIN

SUBJECT: PROPOSED ADB LOAN FOR PULANGUI RIVER IRRIGATION PROJECT
(PHILIPPINES) AND TECHNICAL ASSISTANCE GRANT FOR
MINDANAO IRRIGATION DEVELOPMENT

SUMMARY: ADB MANAGEMENT PROPOSES \$13.5 MILLION
EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES AND
TECHNICAL ASSISTANCE (TA) GRANT OF \$100,00 TO REPUBLIC
OF THE PHILIPPINES TO FINANCE FOREX COST AND PART OF

LOCAL CURRENCY COST OF CONSTRUCTING 11,560 HECTARE
GRAVITY IRRIGATION SYSTEM ON PALANGUI RIVER, BUKIDONON
PROVINCE, CENTRAL MINDANAO, PHILIPPINES; TA GRANT TO
FINANCE FOREX COST OF CONSULTING SERVICES AND EQUIPMENT
TO CONDUCT FEASIBILITY STUDIES FOR FOUCAADDITIONAL
HIGH PRIORITY IRRIGATION PROJECTS IN OTHER MINDANAO
PROVINCES. USADB RECOMMENDS FAVORABLE NAC ACTION.

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1. ADB DOC.R54-75 WITH ATTACHMENTS DESCRIBING

PROPOSED LOAN AND GRANT POUCHES ADDRESSEES JUNE 6.
BMTRD CONSIDERATION SCHEDULED 26 JUNE.

2. ADB MANAGEMENT PROPOSING \$100,000 TA GRANT AND \$13.5 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO THE REPUBLIC OF THE PHILIPPINES. PROCEEDS WILL FINANCE FOREX COST AND PART OF LOCAL COST OF CONSTRUCTING IRRIGATION PROJECT ON PULANGUI RIVER NEAR VALENCIA, BUKIJON PROVINCE, MINDANAO, PHILIPPINES. TA WILL FINANCE FEASIBILITY STUDIES OF FOUR ADDITIONAL IRRIGATION PROJECTS IN MINDANAO. PROPOSED LOAN TERMS ARE 30 YEAR AMORTIZATION INCLUDING 7-YEAR GRACE PERIOD. INTEREST AT RATE PREVAILING AT TIME LOAN IS APPROVED (CURRENTLY 8-3/4 PERCENT). REPUBLIC OF THE PHILIPPINES TO BE BORROWER. NATIONAL IRRIGATION ADMINISTRATION (NIA) TO BE EXECUTING AGENCY.

3. AGRICULTURE, INCLUDING FORESTRY AND FISHERIES, REMAINS LARGEST SECTOR IN PHILIPPINE ECONOMY, ACCOUNTING FOR ONE-THIRD NET DOMESTIC PRODUCT, ONE-HALF TOTAL EMPLOYMENT AND TWO-THIRDS COMMODITY EXPORT EARNINGS. HOWEVER, SECTOR PERFORMANCE WAS UNSATISFACTORY FROM 1971-74, ATTRIBUTED TO CROP FAILURES, FLOODS AND TYPHOONS AS WELL AS PERSISTENT LOW PRODUCTIVITY OF LAND AND LABOR; WIDESPREAD RURAL POVERTY. VALUE ADDED BY AGRICULTURE GREW ONLY 3.4 PERCENT DURING THIS PERIOD, AN AMOUNT ONLY SLIGHTLY MORE THAN POPULATION GROWTH.

4. RICE, STAPLE FOOD OF POPULACE, ACCOUNTS FOR ONE-THIRD OF TOTAL CROPPED AREA, BUT ALTHOUGH TOTAL PRODUCTION TONNAGE HAS INCREASED 38 PERCENT LAST 10 YEARS, COUNTRY IS NOT YET SELF-SUFFICIENT AND CONTINUES IMPORT LARGE QUANTITIES FOOD GRAINS WITH HEAVY FOREX OUTLET. PER CAPITA RICE CONSUMPTION BY FILIPINOS LESS THAN 90 KILOS/YEAR, LOW COMPARED TO OTHER REGIONAL COUNTRIES (MALAYSIA: 110 KILOS; INDONESIA: 107 KILOS).

5. ACCORDINGLY, GOVERNMENT GIVES HIGHEST PRIORITY TO AG SECTOR DEVELOPMENT ESPECIALLY FOOD PRODUCTION LIMITED OFFICIAL USE

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FOR RICE AND CORN. GOVERNMENT SEEKS ATTAIN CEREAL SELF-SUFFICIENCY; EXPANSION OF AG EXPORTS; AGRARIAN

REFORM AND CONSERVATION OF FOREST RESOURCES; LEADING TO INCREASED RURAL EMPLOYMENT AND DEVELOPMENT, SLOWER MIGRATION TO URBAN AREAS.

6. SINCE ONLY 30 PERCENT OF PADDY FIELDS ARE IRRIGATED AND OF THOSE ONLY ONE-THIRD HAVE WATER SUFFICIENT FOR DOUBLE-CROPPING, GOVERNMENT STRATEGY FOR ATTAINING ANNUAL TARGET RICE OUTPUT GROWTH OF 7.5 PERCENT IS TO EXPAND IRRIGATED AREAS, UPGRADE WATER MANAGEMENT; REDISTRIBUTE LAND TO SUBSISTENCE SHARECROPPERS; AND ASSURE TIMELY PROVISION NECESSARY INPUTS INCLUDING HIGH-YIELDING SEED VARIETIES, FERTILIZERS AND OTHER AGRO-CHEMICALS; EXTENSION SERVICES; SUPERVISED CREDIT; ACCESS TO MARKETING, STORAGE AND OTHER SERVICES FOR CULTIVATORS. NATIONAL IRRIGATION ADMINISTRATION (NIA) GOAL IS TO REHAB OR INSTALL 134,000 HA. OF NEW IRRIGATION FACILITIES PER YEAR FOR 10 YEARS.

7. MINDANAO, SECOND LARGEST PHILIPPINE ISLAND ACCOUNTS FOR ONE-THIRD TOTAL LAND AREA OF COUNTRY, 22 PERCENT OF POPULATION; IS RAPIDLY GROWING AREA BOTH IN POPULATION (PARTLY DUE TO MIGRATION) AND INCOME. IN ADDITION TO PROMISING AGRICULTURAL POTENTIAL, ISLAND HAS SUBSTANTIAL EXPANSION PROSPECTS IN MINING AND MANUFACTURING. HOWEVER, POOR INFRASTRUCTURE CONSTRAINS GROWTH POTENTIAL. WITH ONLY 12 PERCENT PAVED ROADS, MANY AREAS INACCESSIBLE, ESPECIALLY IN RAINY SEASON.

GOVERNMENT, UTILIZING FOREIGN ASSISTANCE, HAS TAKEN STEPS TO UPGRADE MAJOR HIGHWAYS AND PORT FACILITIES, HOWEVER, CONSIDERABLE NEED REMAINS FOR BETTER FAR-VILLAGE-TO-MARKET ROADS TO FACILITATE FOOD PRODUCTION. ABOUT ONE-HALF OF ADB'S LENDING TO PHILIPPINES, ABOUT \$130 MILLION, HAS BEEN COMMITTED TO MINDANAO FOR IRRIGATION, ROAD, POWER, AND PORT PROJECTS.

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8. PROPOSED LOAN PROJECT CONSISTS OF BRINGING UNDER WATER COMMAND 11,560 HA. IN THE VALENCIA PLAIN, IN UPPER WATERSHED OF PALANGUI RIVER, CONSIDERED SECURE AREA. IRRIGATION COMPONENTS INCLUDE (A) CONSTRUCTION OF DIVERSION DAM, WITH INTAKE STRUCTURES AND A MAJOR DISTRIBUTION SYSTEM; IMPROVING EXISTING SMALL IRRIGATION SYSTEMS; (B) CONSTRUCTING 50 KM OF NEW DRAINS, AND IMPROVING EXISTING NATURAL DRAINAGE CHANNELS; (C) BUILDING 70 KM OF NEW SERVICE ROADS; IMPROVING EXISTING ROADS AND BRIDGES; (D) CONSTRUCTING FARM ROADS AND DITCHES; (E) PROCURING ALL NECESSARY FACILITIES. ALSO UNDER LOAN ARE PROVISIONS FOR CONSULTING SERVICES FOR AGRICULTURAL DEVELOPMENT INCLUDING TWO 50 HA. PILOT FARMS; SUPPLY OF TRACTORS, DRIERS AND THRESHERS FOR FARM MECHANIZATION; ARRANGEMENTS TO ASSURE SUPPORTING SERVICES INCLUDING EXTENSION SERVICES, AG CREDIT AND IMPROVEMENT IN LAND TENURE.

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9. TA PROJECT, RIDES "PIGGY BACK" ON LOAN, IS DESIGNED TO: (A) DETERMINE FEASIBILITY FOR FOUR ADDITIONAL MINDANAO IRRIGATION PROJECTS; (B) PROVIDE ON-JOB TRAINING TO NIA STAFF; (C) SUPPLY NECESSARY EQUIPMENT AND FACILITIES FOR STUDIES TO BE UNDERTAKEN; AND (D) HELP IDENTIFY ADDITIONAL FUTURE IRRIGATION PROJECTS IN MINDANAO.

10. TOTAL INVESTMENT COST BOTH PORTIONS OF PROJECT ESTIMATED AT US\$21.0 MILLION (EXCLUDING INTEREST DURING CONSTRUCTION), OF WHICH FOREX COMPONENT IS \$6 MILLION. BANK, HOWEVER, PROPOSES FINANCING PLAN COMPRISED OF FOREX LOAN OF \$13.5 MILLION TO COVER: (A) \$6.0 MILLION FOR IRRIGATION PROJECT WORKS; CONSULTING SERVICES FOR PROJECT IMPLEMENTATION AND AG SUPPORTING SERVICES; (B) \$700,000 FOR LOAN PORTION OF TA FOR IRRIGATION STUDIES; (C) UP TO \$3.9 MILLION FOR FINANCING 40

PERCENT OF ESTIMATED LOCAL CURRENCY EXPENDITURES FOR CIVIL WORKS; AND (D) INTEREST AND OTHER CHARGES DURING CONSTRUCTION OF THE IRRIGATION PROJECT, AMOUNTING TO \$2.9 MILLION. BANK WOULD THEN MAKE GRANT OF \$100,000 TOWARDS COST OF TA FOR IRRIGATION STUDIES AIMED AT PREPARING FOUR ADDITIONAL PROJECTS. PROJECT IS ONLY PHILIPPINE LOAN BEING CONSIDERED BY ADB THIS YEAR TO INCLUDE LOCAL CURRENCY COMPONENT.

11. ALLOCATION OF \$6.8 MILLION OF FOREX LOAN PROCEEDS INCLUDES (A) CIVIL WORKS (\$280,000); (B) CONSTRUCTION EQUIPMENT (\$4,060,000); (C) AG DEVELOPMENT (\$400,000); (D) PROJECT ADMINISTRATION AND FACILITIES (\$170,000); (E) DETAILED DESIGN, TENDER PREPARATION AND CONSTRUCTION SUPERVISION CONSULTING SERVICES (\$370,000); (F) LOAN PORTION OF TA - CONSULTING SERVICES FOR FOUR IRRIGATION FEASIBILITY STUDIES PREPARATION (\$800,000); AND (G) CONTINGENCY (\$700,000). BALANCE OF LOAN TOTAL OF \$13.5 MILLION ARRIVED AT BY ADDING TO \$6.8 MILLION, LOCAL CURRENCY FINANCING OF \$3.9 MILLION PLUS INTEREST AND OTHER CHARGES DURING CONSTRUCTION OF \$2.9 MILLION MINUS \$100,000 GRANT ELEMENT OF TA. GOVERNMENT HAS ASSURED ITS SHARE ADDITIONAL LOCAL CURRENCY PORTION (60 PERCENT) OF PROJECT COSTS TOTALLING \$14.2 MILLION LIMITED OFFICIAL USE

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EQUIVALENT WILL BE MET FROM BUDGET RESOURCES AS REQUIRED BY PROJECT SCHEDULE.

12. PROCUREMENT OF ALL PROJECT EQUIPMENT AND MATERIALS TO BE IN ACCORD WITH BANK'S GUIDELINES WITH INTERNATIONAL COMPETITIVE BIDDING ON CONTRACTS ESTIMATED TO COST \$100,000 OR MORE; INTERNATIONAL SHOPPING FOR CONTRACTS UNDER \$100,000. DEPENDING ON PROGRESS IN COMPLETING CONSTRUCTION ON ANOTHER BANK-FINANCED PROJECT IN MINDANAO - DAVAO DEL NORTE IRRIGATION - SOME OF CONSTRUCTION EQUIPMENT AMOUNTING TO ABOUT \$500,000 FINANCED UNDER THAT PROJECT MAY BECOME AVAILABLE FOR TRANSFER TO THIS PROJECT. HOWEVER, BECAUSE OF UNCERTAINTY IN CONSTRUCTION SCHEDULES, FULL AMOUNT OF REQUIRED EQUIPMENT IS FIANCED IN CURRENT LOAN. IF SAVINGS ARE REALIZED BY SUBSEQUENT EQUIPMENT TRANSFERS, AMOUNT OF SUCH SAVINGS WILL BE TRANSFERRED TO CONTINGENCY ACCOUNT. CIVIL WORKS TO BE CARRIED OUT BY LOCAL CONTRACTORS, USING EQUIPMENT PROCURED UNDER PROJECT.

LOCAL CONTRACTORS TO BE SELECTED BY NIA THROUGH COMPETITIVE BIDDING FROM AMONG PRE-QUALIFIED LOCAL FIRMS, WITH CONCURRENCE OF BANK.

13. CONSULTANTS FOR IRRIGATION CONSTRUCTION TO BE SELECTED IN ACCORD BANK'S PROCEDURES WILL INCLUDE 40 MAN/MONTHS, CONSISTING OF CIVIL ENGINEER, MECHANICAL

ENGINEER AND AGRONOMIST. SCOPE OF WORK TO INCLUDE REVIEW OF DETAILED DESIGNS, ASSISTANCE IN PREPARATION TENDER DOCS, BID EVALUATION, RECOMMENDING AWARDS, CONSTRUCTION SUPERVISION; SURVEY OF REUSABLE UNITS IN DAVAO DEL NORTE CONSTRUCTION EQUIPMENT FLEET; ASSISTANCE IN PILOT FARM ESTABLISHMENT INCLUDING FARM MECHANIZATION, RAT CONTROL, CULTIVATION TECHNIQUES, AND ADVICE TO NIA ON ACTION PROGRAM FOR AG DEVELOPMENT POLICIES AND INSTITUTIONS. (SIDE LTR NO. 4, PARA 9 PROVIDES NIA LIMITED OFFICIAL USE

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MUST SUBMIT SPECIFIC ACTION PLAN ACCEPTABLE TO BANK BY END OF 1978 TO INCLUDE INTER ALIA, EXTENSION SERVICES, FARM AND WATER MANAGEMENT, AG CREDIT, MARKETING, FARMER'S ORGANIZATIONS, RAT CONTROL, FARM MECHANIZATION; AND WATERSHED MANAGEMENT.) CONSTRUCTION PHASE SCHEDULED TO TAKE FOUR AND ONE-HALF YEARS AFTER LOAN BECOMES EFFECTIVE, WITH COMPLETION LATE 1979.

14. IRRIGATION FEASIBILITY STUDIES TA PROVIDES FOR 78 MAN/MONTHS OF SERVICES, WITH CONSULTANTS ALSO TO BE SELECTED IN ACCORD BANK'S PROCEDURES. SCOPE OF TA INCLUDES GENERAL IRRIGATION DEVELOPMENT IN MINDANAO; COMPLETION UP TO FEASIBILITY LEVEL OF FOUR HIGH-PRIORITY IRRIGATION PROJECTS IN TAGO, DAVAO DEL NORTE II, ALLAH AND AGUSAN II, FOR FUNDING IN 1976-77; ALSO INCLUDED IN TA IS TRAINING OF GOVERNMENT STAFF AND IDENTIFICATION FUTURE PRIORITY MINANAO IRRIGATION PROJECTS FOR CONSIDERATION FROM 1978 ON. GOVERNMENT INTENDS REQUEST BANK TO FINANCE PROJECTS FOUND TECHNICALLY AND ECONOMICALLY FEASIBLE BUT BANK NOT COMMITTED TO FINANCE SUCH PROJECTS.

15. NIA, EXECUTING AGENCY, IS EXECUTING AGENCY FOR ALL PRIOR BANK-ASSISTED IRRIGATION PROJECT ACTIVITIES IN PHILIPPINES, CONSIDERED TO HAVE ADEQUATE STAFF AND EXPERIENCE FOR PROJECT EXECUTION AND OPERATION. HOWEVER, OBJECTIVE FUNCTION OF IRRIGATION PROJECTS (INCREASED YIELDS AND FARMER INCOME) REQUIRES SUCCESSFULLY COORDINATING EFFORTS OF MANY COGNIZANT AGENCIES. PREVIOUS BANK-FINANCED ANGAT-MAGAT IRRIGATION PROJECT, CALLED FOR ESTABLISHMENT OF CENTRAL PROJECT

COORDINATING COMMITTEE; SIMILAR REQUIREMENTS STIPULATED
IN DAVAO DEL NORTE AND AGUSAN DEL SUR PROJECTS, BUT THOSE
COMMITTEES NOT YET SET UP. TO AVOID PROLIFERATION OF
COMMITTEES, DUPLICATION AND OVERLAPPING, GOVERNMENT AND
BANK AGREED TO AMEND PREVIOUS AGREEMENTS, ESTABLISH
SINGLE COORDINATING GROUP FOR ALL BANK-FINANCED
IRRIGATION PROJECTS. COMMITTEE WOULD BE CHAIRED BY
NIA AND ALSO COMPRISED OF NEDA (DEVELOPMENT AUTHORITY);
DEPARTMENTS OF AGRICULTURE, NATURAL RESOURCES, AND
AGRARIAN REFORM (DA, DNR, DAR); AG CREDIT ADMINI-
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STRATION (ACA); CENTRAL BANK, PHILIPPINE NATIONAL BANK,

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FOR NAC AGENCIES

LAND BANK, RURAL BANKERS ASSOCIATION AND DEPARTMENT OF LOCAL GOVERNMENT AND COMMUNITY DEVELOPMENT (DLGCD). EACH PROJECT TO HAVE LOCAL COORDINATING COMMITTEE COMPRISED OF LOCAL REPRESENTATIVES OF NATIONAL AGENCIES LISTED ABOVE, PLUS REPRESENTATIVES OF MINDANAO DEVELOPMENT AUTHORITY; ALSO GOVERNMENT TO ESTABLISH PROJECT OFFICE STAFFED BY NIA PROJECT MANAGZY; OTHER NECESSARY PERSONNEL SECONDED TO PROJECT BY PARTICIPATING AGENCIES.

16. NIA TO DATE HAS HAD SATISFACTORY TRACK RECORD IN CONVENANT COMPLIANCE ON PRIOR IRRIGATION PROJECTS FOR WHICH PROGRESS CAN BE APPRAISED; HAS AGREED SUBMIT TO PERIODIC AUDITS (PRO-AG, SECT. 2.08 AND SIDE LETTER NO. 4, PARAGRAPH 20); WILL PROVIDE QUARTERLY PROGRESS REPORTS (SIDE LETTER NO. 4, PARAGRAPH 23); AND WILL SUBMIT BASE LINE DATA TO FACILITATE EVENTUAL PROJECT POST-EVALUATION (SIDE LETTER NO. 4, PARAGRAPH 22). ON LIMITED OFFICIAL USE

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DAVAO PROJECT, HIGHER WATER USE RATES ON COST-RELATED BASIS WILL BE EFFECTIVE FROM 1 JULY 1975. COLLECTION AND ACCOUNTING PROCDURES STILL REQUIRE STRENGTHENING. COTABATO IRRIGATION PROJECT SOMEWHAT BEHIND SCHEDULE WITH TERMINAL FACITITIES ONLY 85 PERCENT COMPLETE, NOT FULLY OPERATIVE. ON ANGAT-MAGAT, LAND REFORM PROGRAM TARGET DATE HAS LAPSED WITHOUT ACCOMPLISHMENT, AND BANK AND GOVERNMENT JOINTLY REVIEWING WITH AIM OF RESETTING NEW TARGET DATE.

17. PROPOSED PROJECT SEEMS ASSURED RELIABLE SUPPLY GOOD QUALITY WATER; SOIL SATISFACTORY WITH SOME ADDITION OF LIMESTONE TO IMPROVE SOIL STRUCTURE; RAT INFESTATION CONSIDERED PROBLE WITH RESPONSIBLE BUREAU OF PLANT INDUSTRY LACKING PERSONNEL AND FUNDS. ON COMPLETION, PER HECTARE RICE YIELDS EXPECTED INCREASE FROM 1.8 TONS TO 5 TONS; ANNUAL CROPPING AREA TO EXPAND FROM 15,353 TO 23,120 HA.; WITH DOUBLE-CROPPING, INCREASED YIELDS, PROJECT WOULD GENERATE \$4.6 MILLION/YEAR NET DIRECT BENEFITS (PADDY OUTPUT TO REACH 72,500 TONS ANNUALLY). ECONOMIC INTERNAL RATE OF RETURN (DEDUCTING RESIDUAL EQUIPMENT VALUE; NOT CHARGING INTEREST DURING CONSTRUCTION OF ALLOWING FOR ESCALATION) ESTIMATED AT 19.1 PERCENT. PROJECT DEEMED ECONOMICALLY AND TECHNICALLY FEASIBLE.

18. 4700 FARM FAMILIES IN SERVICE AREA NOW AT SUBSISTENCE LEVEL WITH AVERAGE FARM SIZE OF 2.25 HAS., WOULD INCREASE ANNUAL EARNINGS FROM \$191 TO 1572 AFTER 1982 FOR SELF-OWNERS OR \$1365 FOR LEASEHOLDERS

(ASSUMING ABOLITION OF PRESENT SHARZNROPPING SYSTEMS). ESTIMATED WATER USE CHARGES OF \$75/FARM FOUR BE ONLY 6 PERCENT OF INCREMENTAL NET INCOME AFTER PROJECT COMPLETION. ALSO, GOVERNMENT WOULD SAVE \$11.4 MILLION ANNUALLY IN FOREX FROM REDUCED RICE IMPORTS; 2.6 MILLION MAN/DAY OF EMPLOYMENT WOULD BE CREATED DURING CONSTRUCTION PERIOD; 477,000 MAN/DAYS BY OPERATION OF THE IRRIGATION PROJECT, AND CULTIVATOR INCOME WOULD BE DISTRIBUTED MORE EQUITABLY.

19. IT SHOULD BE NOTED THAT ALTHOUGH THE MAJOR BENEFICIAL OFFICIAL USE

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BENEFICIARIES OF THE PROJECT WILL BE SMALL LAND-OWNERS OR POSSIBLY LEASEHOLDERS, THAT ONE LARGE COMMERCIAL FARM WITHIN THE PROJECT SERVICE AREA ENCOMPASSES 1,000 HECTARES OR NEARLY 10 PERCENT OF THE ENTIRE PROJECT. BANK STAFF ADVISE THAT THIS FARM WILL BENEFIT TO THE EXTENT OF FUEL AND MAINTENANCE SAVINGS FROM ABANDONING ITS PRESENT DIESEL PUMPS AND SWITCHING TO GRAVITY FLOW WHEN THE SYSTEM INSTALLATION IS COMPLETE. HOWEVER, STAFF NOTE THAT NIA HAS AUTHORITY TO LEVY WATER USE

CHARGES (AT A DIFFERENTIAL FROM TARIFF CHARGED TO FARMERS); THAT EMPLOYMENT OPPORTUNITIES ON THE FARM WILL REMAIN, AND THAT FARMERS IN THE AREA BENEFIT FROM A DEMONSTRATION EFFECT OF THE TECHNIQUES UTILIZED ON THE FARM. NO OTHER COMMERCIAL SIZED FARMS ARE IN SERVICE AREA.

19. IT SHOULD ALSO BE NOTED THAT SOME UNCERTAINTY REMAINS REGARDING THE GOVERNMENT POLICY (NATIONWIDE) ON IMPLEMENTATION OF LAND REFORM PROGRAM REGARDING DISTRIBUTION OF LOT SIZES FROM 7 TO 24 HAS. (FOR 24 HAS. AND UP DISTRIBUTION HAS BEEN VIRTUALLY COMPLETE WITH NO RETENTION RIGHTS TO ORIGINAL LANDOWNERS). THE

ISSUE, NOW AWAITING PRESIDENTIAL DECISION, IS WHETHER TO PERMIT 7 HAS. TO BE RETAINED; AND IF SO, WHO WOULD BE ELIGIBLE. THOSE FAVORING THIS VIEW POINT OUT THAT HOMESTEADERS (INCLUDING MANY WITHIN PROJECT AREA) WERE GIVEN 7 HAS. TO 11 HAS. UNIMPROVED LOTS AND WITH GOVERNMENT ENCOURAGEMENT, INVESTED TIME, MONEY AND EFFORT IN LAND CLEARING AND DEVELOPMENT. MANY BELIEVE THEY WOULD LOSE THEIR INVESTMENT BENEFITS, IF LAND WERE ALL DISTRIBUTED. MANY SCHOOL TEACHERS, RETIRED CIVIL SERVANTS AND MILITARY ARE IN THIS CATEGORY OF SMALL LANDLORDS, EITHER HAVING RELATIVES, FRIENDS OR NEIGHBORS NOW SHARE-CROPPING THEIR HOMESTEADS. ONE POSSIBLE COMPROMISE, AFTER SHARE-CROPPING IS TERMINATED,

WOULD BE TO PERMIT SUPERVISED LEASHOLDINGS, (WITH ASSURED
TENURE AND FIXED RATE TO OWNER) WITH SAY,
25 PERCENT OF CROP YIELDS PAYABLE TO OWNER. BANK STWGF
HAVE CALCULATED THAT IF THIS ARRANGEMENT WERE ADOPTED,
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IT WOULD BE ONLY SLIGHTLY LESS ADVANTAGEOUS THAN
OUTRIGHT OWNERSHIP, IN WHICH PURCHASE COST AMORTIZATION
IS SCHEDULED FOR 15 YEARS. (TAXATION RATES BEING
UNKNOWN, DO NOT ENTER INTO THIS ASSESSMENT.)

20. USADB FURTHER NOTES THAT LONG AMORTIZATION OF THE
PROPOSED ADB LOAN (30 YEARS) PLUS FINANCING OF LOCAL
CURRENCY AND INTEREST DURING CONSTRUCTION, MAKES THIS
ONE OF MOST CONCESSIONAL ORDINARY CAPITAL LOANS PROPOSED
BY BANK. STAFF NOTE THAT LONG PAY-OFF PERIOD OF AN
IRRIGATION PROJECT AND THE GOP'S CURRENT BALANCE OF
PAYMENTS DIFFICULTIES JUSTIFY THE CONCESSIONALITY.
(DAVAO DEL NORTE IRRIGATION AND ANGAT-MAGAT LOANS BOTH
HAD 30-YEAR AMORTIZATION PERIODS.)

21. USADB SUPPORTS PROPOSAL, WHILE INTENDING TO URGE,
DURING BOARD CONSIDERATION, CLOSE MONITORING BY BANK

OF LAND REFORM IMPLEMENTATION TO ASSURE DISTRIBUTIVE
EQUITY EFFECT OF INVESTMENT BENEFITS.

22. U.S. MISSION MANILA REQUESTED TO PREPARE COMMENTS
SEPTTEL, PURSUANT TO STATE 119795 DTD 3 JULY 1972.
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Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006